

RECENT ECONOMIC DEVELOPMENT IN SYRIA

1

AWAD BARAKAT *

Introduction

433 1. Despite the great potentialities that lie in her fertile soil, the nature of her climate, the energy of her people and her geographical position, Syria is an economically underdeveloped country. Perhaps it would be more accurate to use the term *not fully developed* to describe Syria's present situation, particularly in view of the economic awakening which began after World War II and has continued to grow up to the present day.

000 2. Admitted that the economic development of any country cannot be undertaken without individual as well as governmental effort, we nevertheless intend to restrict our examination of the economic development of Syria to the part played by the government. The reasons for this restriction are: limitations of space do not allow a full analytical treatment of both individual and governmental efforts; statistics on governmental activities are far fuller and more reliable than any as yet available for private concerns; finally we believe that in a country like Syria, where private capital is inadequate and the investment habit not yet deeply rooted, economic development must depend to a very large extent upon the government. Indeed we would go so far as to say that unless the government is able to assume control of economic development and is willing to bear the greater part of the burden, little improvement can take place. Part of the government's job will be to create the conditions, lacking until now which will encourage individual efforts and investment.

3. Underdeveloped countries, generally speaking, have certain conditions in common, the most characteristic being the following: partial exploitation of natural resources and neglect of possibilities of growth: low national production and national income, resulting in weak purchasing power, low national savings and shortage of investment capital; a deficit in the balance of trade

114 * Dr. Awad Barakat is Secretary of the Currency and Credit Council of Syria.

000 and balance of payments; lack of technical skill; weakness in banking, monetary and financial systems; and, in general, a primitive economic and financial structure.

4. It is clear to us that, under these conditions, the promotion of economic development must be to a large extent a government affair. Only the state has the authority and control of resources, to create conditions favourable to development, to establish principles, and to put into motion the machinery for its implementation. The state alone can make the changes and undertake the projects that are necessary to the economic well-being of the country. First, new laws must be passed to create legal, technical and organizational conditions favourable to development. For example, property rights must be safeguarded, the ownership and exploitation of land regulated, and a new code introduced into commercial transactions and economic activity generally. An organization must be established to formulate a policy of economic development and to carry out its implementation. It must have at its disposal full and accurate statistical information, and technical studies of the country's hidden wealth and neglected resources. The government must undertake large projects like land surveying and settlement, irrigation, drainage, and the construction of roads and bridges, which, though necessary before further development can take place, are beyond the capacity and capital of individuals. Finally, in order to achieve integration of effort, the government must direct the policy of economic development so as to ensure harmony between its several economic, monetary and financial aspects.

12/ 5. The obstacles that stand in the way of economic development in Syria are fundamentally not different from those we outlined above (paragraph 3) though Syria has already covered considerable ground in these fields. In what follows we shall attempt to analyse Syria's condition at the dawn of her independence. We shall then briefly review the achievements of the country during the 1945-1953 period, so as to deduce from them the problems that at present beset economic development in Syria, and arrive at possible solutions. This paper will therefore be divided into three parts:

Problems of economic development.

A brief review of economic development, 1945-1953.

Current problems and possible solutions.

Part One

Problems of Economic Development

6. At the beginning of independence, when a Syrian Government assumed power, the country's economy was in a relatively primitive state. It was burdened by many restrictions, it faced difficult problems and it needed a great deal of care and order. The government had very little to build on, and it was faced, into the bargain, with a huge legacy of problems left to it by the previous régime. 652

7. We will first examine the problems arising from outside sources. The most important of these lay in the monetary and exchange system, customs policy, and the customs and economic union with Lebanon.

8. The monetary system was governed by a contractual agreement with a foreign bank, the Banque de Syrie et du Liban, which managed the Issue Department and which took decisions on matters of issue and credit quite independently of the Syrian Government, which thus had no power of direction or control whatsoever. Syrian currency was tied to the French franc and the greater part of the cover was in French francs. These balances were the subject of disagreement between the Syrian and French Governments, both on the question of their guaranteed value in terms of sterling and the question of their free use. Negotiations with the French Government resulted in an agreement¹ which solved the question of the guarantee and granted Syria the right of gradually liquidating the franc balances. The break of the Syrian pound away from the French was agreed to and Syria became free to exercise the right of legislating in monetary matters. Subsequent to the agreement, Syria issued a series of laws that regulated the issue of currency, its circulation and cover, and which provided for the control of the Department of Issue and the direction of the monetary and credit policies. The last of these laws was Legislative Decree No. 87, of March 28, 1953, which covers the basic monetary law and the establishment of the Syrian Central Bank. 652
648

¹ The Agreement of 7 February, 1949, including liquidation, settlement, and payments agreements.

652 9. The exchange system was subject to the control of the
648 Mandatory authority which directed it in accordance with its own
interests, and the exchange control was a department administered
directly by the High Commissioner's Office. In 1944 the exchange
control was transferred to a joint Syro-Lebanese committee, head-
ed by a delegate from the Central Exchange Control Office of
the franc area, of which both Syria and Lebanon were members.
In 1948 Syria declared its withdrawal from the franc bloc and be-
652 came independent in dealing with exchange questions. The Ex-
change Office in Syria thus became a purely Syrian institution.
Subsequently the Government initiated several reforms that aimed
at removing war-time restrictions. The exchange system became
gradually freer and adapted itself to the needs of the Syrian eco-
nomy. The last and most important of these reforms was Legisla-
tive Decree No. 208 of April 21st, 1952, which allowed the free entry
and transfer of capital and created conditions facilitating commer-
cial transactions; it also worked towards achieving stability in
the foreign exchange rates and bolstering the cover to the currency.
In this manner the Decree inspired confidence in the national
currency and prepared the right atmosphere for the entry of fo-
reign capital and its investment in the country.¹

651 10. As to the customs policy, this also was directed by the
648 Mandatory authority. It was formed by financial considerations,
the first aim of which was to cover the expenditures of the Man-
date and collect revenues for the treasury. When the Syro-Leba-
nese authorities took over the customs administration, the customs
tariff and regulations moved gradually towards facilitating com-
mercial transactions and encouraging national industry by exemp-
ting machinery and raw materials, needed by industry and agricul-
ture, from duty. However, the establishment of a customs union
between the two countries and the existence of an actual economic
union, which took the form of free movement of goods, capital and
persons between them, led to disagreements as to the customs and
economic policies that each country thought should be followed.
The disagreement reached its peak on the questions of import and
export policies and the protection of national industry, and as a
result of their failure to agree on a common policy, the two count-

1 *Vide The First Annual Report on the Activities of the Exchange Office in 1952, Damascus, 1953.*

ries separated in 1950, and, in consequence, Syria regained freedom of action in directing her customs and economic policies and in managing her economy on an independent basis. 651 648

11. The new Syrian government also had to face serious internal problems, that the Mandatory power with its "Laissez-faire" policy had not attempted to deal with. No factual study of the country was made nor any determined course of economic action undertaken. The following are the most serious of the defects of the economic system at that time :

First there was a lack of statistics and detailed studies upon which to base a sound economic policy. Nor were there any technical and scientific studies of the country's economic resources, or plans for developing and exploiting them. Secondly, the banking system failed in meeting the country's need for agricultural credit and for medium and long term credit. The majority of the banks were branches of foreign banks that specialized in commercial short-term credit operations, and which, with the exception of the Banque de Syrie et du Liban, avoided seasonal agricultural lending. All the banks operated without any control or direction. Furthermore, no bank had up to that date been established to deal with industrial or mortgage credit. There was only the Agricultural Bank, established by the government to deal with medium-term agricultural loans, but its regulations, staffing and limited means did not enable it to play a major role in meeting the needs of agriculture. Thirdly there was no money market that could attract national savings and invest them in development projects. People with savings have always preferred to hoard them in the form of gold, or else they invested them in real estate. In addition, foreign capital avoided entry into the country because of restrictions on exchange, and other reasons. 659 453 652 454

12. During the period 1945 to 1953 the government made a great effort to regulate the Syrian economy in the fields of trade,¹ 656

¹ Legislative Decree No. 14 of December 18, 1951 and its amendments concern the regulation of the possession of, and trade in, raw materials and products. Legislative Decree No. 151, of March 3, 1952 and its amendments concern company law and the law governing firms established outside Syria. Legislative Decree No. 60, of January 13, 1952 and its amendments regulate foreign trade etc.

656 industry,¹ and agriculture,² and to establish stable principles of economic policy.³

447 To remedy the above mentioned defects and to fill the gaps in the country's economic structure the government established a Directorate of Statistics⁴ and directed its attention to the preparation of scientific and technical studies of the country's resources.⁵ Finally, the government reformed the country's banking and monetary systems by creating, in accordance with the Basic Monetary Law,⁶ the Money and Credit Council with the function of exercising monetary control ; it laid down new monetary regulations inspired by the needs of the country and regulated the operations of bankers and money-changers. Reform included also the expansion of the Agricultural Bank's capital; the strengthening of its financial means and the extension of its operations to meet seasonal credit needs.⁷ The question of medium and long-term credit remains however still unsolved.

433 13. To complete this brief survey of Syria's economic position in 1945, when the new national government came to power, it is necessary to give some account of general economic conditions.

¹ Legislative Decree No. 47, of August 7, 1952 and amendments regulating Syrian industry.

Legislative Decree No. 138, of November 6, 1952 regulating industrial, commercial and free professions.

Legislative Decree No. 103, of September 27, 1952 relating to the encouragement of industry.

² Legislative Decree No. 135, of October 29, 1952 and Regulatory Decree No. 768 of November 3, 1952 concerning the distribution of state lands.

Legislative Decrees No. 50, 51 and 52 dated January 9, 1952 and No. 81, 82 and 83 dated January 23, 1952 and No. 125 and 126, dated January 20, 1952 relating to the planting and export of cotton ; Legislative Decrees No. 27, 80 and 106 of 1952 concerning the sale of Agricultural machinery and the combatting of agricultural pests and insects etc.

³ *Vide Syrian Economy 1953* . Government Press, Damascus.

⁴ Legislative Decrees No. 130 and 35 dated June 11, 1949.

⁵ Report by Sir Alexander Gibb and Partners, 1947 ; studies of irrigation projects, the Ghab project, Lattakia port project and the Aleppo water scheme ; Mission of the International Bank of Reconstruction and Development.

⁶ Legislative Decree No. 87, of March 28, 1953.

⁷ Law 77, dated June 28, 1951 which provides for the addition of LS 10 million to the capital of the Agricultural Bank ; Law 126 which grants LS 5.5 million to farmers affected by losses ; Legislative Decree No. 9 amending the Agricultural Bank Law ; and Legislative Decree No. 97 which empowers the Agricultural Bank to extend seasonal loans etc.

The Syrian economy in 1945 was distinguished by its relatively low 433 production of a generally poor quality. It lay in a state of decadence and stagnation that could only have been remedied by energetic action by the authorities in power. It was a virgin country waiting for people willing to work hard to develop its resources in the fields of agriculture, industry and commerce.

Agriculture in Syria occupies first place, whether considered 433 from the point of view of production or the number of those who 241 earn a living from it. It produces the largest part of the country's exports and supplies the national industries with raw materials. But, despite its preponderance over other economic activities farmers remained up to 1945 dependent on ancient methods, and were ignorant of such modern techniques as the use of machines and fertilizers. Syrian agriculture suffered helplessly from the crop rotation system, from natural pests, insects and diseases, from rain variations and the unscrupulousness of money lenders.

As to industry, it was in its infancy, still feeling its way and 433 lacking encouragement, protection, adequate studies, knowledge and experience.

Nor was commerce in a better situation than agriculture and in-439 dustry. During the second world war, Syrian trade lost its relations 457 with many of the belligerent countries, and emerged from the war crippled and hampered by the restrictions of exchange control. In addition, the direction of Syrian commerce was not in the hands of Syrian nationals; the larger part of foreign trade, both exports and imports, was handled through Beirut. As a result Syrian merchants lost direct touch with countries abroad and Syria became in effect an internal market dealing in retail with neighbouring markets. Commercial agencies were in the hands of non-Syrians up to the extent of 95 per cent of the total. To complete the picture we should mention that a large part of banking operations with foreign countries took place in banks situated outside Syria, and that the purchase and sale of foreign exchange accruing to Syria was effected in the Beirut market. To conclude, control of Syrian external trade was in non-Syrian hands and the Syrian economy, in consequence, was forced to lose large sums in the form of expenses, commissions, and profits which were paid abroad for mediation in purchase and sale transactions.

14. During the period under discussion the Syrian Govern-185 ment exercised great effort with satisfactory results; it made a be-

185
ginning in solving many problems of agriculture, industry, and trade. There is not enough space here to give details of their achievements; it is enough to say that, by continuous and widespread effort, the Syrian government was able to remove external problems and to clear away many of the internal obstacles and restrictions that hampered the country's progress. Thus they prepared the way for the emergence of a policy of economic development, and created many of the essential conditions for its success.

15. Leaving aside particular and secondary problems, we can diagnose Syria's major development problems as follows: National production is still far below capacity; a large part of national resources and wealth are not yet exploited. Many large-scale projects must be undertaken before any increase in productivity can take place. Such projects are: irrigation, the draining of marshes and extension of cultivable land; improvement of agricultural methods, utilization of modern machinery and combatting of plant diseases and pests; exploitation of natural resources such as minerals and mines, and the generation of electric energy and motive power; the improvement and increase of livestock by better water supplies, shelter and pasturage; re-afforestation and the preservation of existing forests; the construction of roads, bridges, ports and airports, and the supplying of means of transport to facilitate communications; the completion of land surveys and settlement operations in all districts; the construction of general warehouses; the supplying of drinking water and electricity to rural areas. But, 454
652
whereas the country's needs are great, her financial means are not adequate to cover them. National savings are low in themselves, as we noted above; people prefer hoarding gold or investing in real estate. There is as yet no financial market in Syria. State finances are necessarily weak so long as they depend on a weak economy. Thus, neither the state nor private individuals can be expected to finance big development.

16. It follows from the above that the economic development of Syria depends on a solution to the following problem: the Syrian economy needs capital and finance projects that will create conditions favourable to its growth; but, as a result of its weakness and underdevelopment, it lacks the necessary financial means. In other words, the state's financial capacity is small and cannot expand unless national production grows; and national production cannot grow unless the state's financial capacity expands. How

then, are we to get out of this vicious circle? It is worth our while, ⁶⁵² before we attempt to answer the question to review the development policy that was followed during the period 1945-1953.

Part Two

Economic Development During the Period 1945-1953

17. Credits allocated to development projects and approved by the Syrian government from 1945 up to the end of 1952 totalled approximately LS 420 million, of which LS 301 million were actually spent during that period; that is, at an average rate of LS 37.7 million per year.

In what follows we shall briefly describe the projects that have been executed, and the means by which they were financed and administered.

Projects Executed

18. The effort exerted has covered constructional, economic and social aspects. Expenditure was distributed as follows:

Table 1

Expenditure on Development Projects 1945-1952 (in LS Millions)

Government buildings	25,728
Schools	11,500
Hospitals & Clinics	8,500
Irrigation	41,000
Communications (roads, bridges, ports and airports)	39,120
Railway lines	8,287
Automatic telephone	33,000
Electricity	10,000
Agricultural & veterinary schools, centers & nurseries	4,000
Agriculture & agricultural credit	29,300
Cereals Office	40,000
National Industrial companies	16,927
Survey and settlement	6,500
Municipalities (drinking water & electricity)	27,500
Total :	<u>301,362</u>

652 The distribution of this expenditure over the years 1945-1952 gives us the following approximate figures :

Table 2

Expenditure on Development Projects for the years 1945-52
(in LS Millions)

<u>Year</u>	<u>Expenditure</u>
1945	9,300
1946	13,150
1947	26,367
1948	67,750 ¹
1949	45,015
1950	40,512
1951	54,820
1952	44,448
Total :	<u>301,362</u>

The Financing of Projects

19. Development projects were financed from three sources. First, from appropriations allocated from the general state budget ; secondly, from available treasury funds, most of which consisted of the budgetary surpluses that went to form the reserve fund ; and thirdly, from loans from the Bank of Issue. The following Table indicates the relative importance of each of the three sources of finance.

Table 3

<u>Source of funds</u>	<u>LS Millions</u>
From budget appropriations	115,000
From available Treasury funds	59,537
From the Bank of Issue	126,825
Total :	<u>301,362</u>

¹ The amount allocated to the Cereals Office ranged between LS 25 and LS 50 million in different years. The sum of LS 40 million appears only in the year 1948 although allocations were made in the following years as well.

Table 4 below gives a division of the funds according to source and year. 652

Table 4
Development Funds According to Source and Year
(in LS Millions)

Year	Budget Appropriations	Drawn from Available Treasury Funds	Taken from Bank of Issue	Total
1945	7,500	1,800	—	9,300
1946	8,250	3,500	1,400	13,150
1947	12,250	7,617	6,500	26,367
1948	17,500	7,500	42,750	67,750
1949	21,500	9,620	13,895	45,015
1950	17,250	11,500	11,762	40,512
1951	15,500	10,500	28,820	54,820
1952	15,250	7,500	21,698	44,448
Total:	<u>115,000</u>	<u>59,537</u>	<u>126,825</u>	<u>301,362</u>

In general, we notice that budget expenditures were made on general projects, such as communications, government buildings and schools, that do not yield direct revenue. On the other hand, financing from treasury funds or from the Bank of Issue took the form of loans given to projects that yield returns and are thus able to repay them. Electricity installations, national industrial companies, the automatic telephone, and loans to municipalities are examples of the second type. Out of the loans made for these purposes the following amounts were repaid during the period under review :

Repaid out of the amounts drawn from
the available treasury funds.

LS 12 million

Repaid out of the amounts advanced by
the Bank of Issue.

» 12 »

Total: LS 24 million

20. We have no comment to make on the method of financing from the budget or from available Treasury funds; for these finan-

652 cial sources are derived from national savings and were drawn from taxes that fed both the budget and the reserve fund. Average expenditure per year reached LS 22 million. Since the state budgets ranged between LS 99 million in 1945 and LS 200 million in 1952 this represents about 10 per cent of the total budget.

21. The method of financing from the Bank of Issue requires some clarification and discussion. When the government had recourse to Bank of Issue loans to finance a part of her development projects, the Banque de Syrie et du Liban used to secure the necessary funds in one of two ways: either by placing the loan in the currency cover and issuing new currency paper; or else by utilizing the public deposits in its commercial department. For, besides undertaking normal banking operations, the Banque de Syrie et du Liban was at the same time in charge of currency issue. By virtue of its concessionary position it acted as the financial agent of the government, and was the bank in which were deposited the treasury's funds and those of all public departments and institutions, such as the Waqf, municipalities, railways, and electric-power establishments. These public deposits were placed in the Bank's commercial department and in recent years ranged in amount between LS 100 and LS 120 million. The Banque de Syrie et du Liban often used these public deposits to finance the larger part of the loans on the understanding that, if funds were later drawn from public deposits, it could call on its Issue Department to obtain the funds required and place in the currency cover the loans drawn from the deposits. It can therefore be said that a large part (about 65 per cent) of the Bank of Issue loans originated from public deposits placed with the commercial department. Government borrowing, for this reason, did not necessarily lead to a direct increase in the currency in circulation.

22. The loans from the Bank of Issue that were used during the period under review to finance development projects reached LS 126.8 million, of which LS 40 million were used by the Cereals Office to buy cereals from the farmers which it later sold gradually both in internal and external markets. This operation was not in fact more than a short-term commercial credit operation of seven to ten months duration, and it can therefore be said that the financial operations of the Cereals Office had no inflationary impact on the Syrian economy.

The remaining sum of LS 86.8 million (126.8 - 40) was invested for periods ranging between 5 and 10 years, in projects which are likely to have a quick effect in terms of expanded national production and economic activity. The Bank of Issue loans, which amounted to LS 86.8 million, invested in development projects, did not, considered apart from other loans and inflationary factors, have an inflationary effect upon the Syrian economy, for the following reasons: the sum of LS 86.8 million was spread over eight years at an average rate of LS 11 million per year. This amounted to only 5 per cent of the money in circulation which reached LS 197 million at the beginning of 1945 and LS 239 million at end of 1952. During the same period there appeared several factors that had a deflationary impact, counterbalancing or modifying the effect of the Bank of Issue loans. On the one hand, as we pointed out earlier, LS 24 million out of the funds invested in development projects were repaid within the same period. On the other hand, the Reserve Fund rose from LS 27.9 million at the end of 1944 to LS 45.2 million at the end of 1952, the source of the increase being an excess of budget revenue over expenditure. Thirdly, part of the expenditure was made in foreign exchange, thus leading to a contraction in monetary circulation equal to the amount of foreign exchange drawn for that purpose from the currency cover. Fourthly, the greater part of the loans were financed, as we have seen, by drawing on the public deposits placed in the Commercial Department of the Banque de Syrie et du Liban. Finally, it is well known that the velocity of monetary circulation in agricultural countries is lower than in industrial countries. In countries that lack developed means of capital transfer, the effects of monetary inflation do not therefore appear as strongly or as fast as with a highly developed banking and deposit currency system.

23. Changes that took place in internal prices and exchange rates during the period under review support this view. Internal prices — except during the Korean war emergency — did not rise, despite the existence of other inflationary factors due to loans spent on nonproductive projects, and despite the lack of any set monetary policy to control credit. This phenomenon can be explained only in terms of a growth of national production during the period under consideration and by appreciable expansion in economic activity. The following Tables support our observations :

[1945 - 1952 -- Analyst]

Table 5

435

A - Index of wholesale Prices in Damascus ¹

Year	Foodstuffs	Local Raw Materials	Local Manufactures	Building Materials	Fuel
1949 (Average)	100	100	100	100	100
1950 (Dec.)	95	140	108.3	107.3	83.2
1951 »	121.2	128.6	108.5	93.1	88.9
1952 »	120.9	111.1	95.3	96.5	88.3
1953 (Aug.)	101.5	104.5	87.1	87.6	79.4

B - Index of Retail Prices in Damascus

Year	Index No.
1938 (Average)	100
1945 (Dec.)	830.5
1946 »	766.1
1947 »	699.1
1948 »	662.1
1949 »	561.6
1950 »	477.9
1951 »	536.5
1952 »	632.1
1953 »	595.7
1953 (Aug.)	533.5

457

C - Dollar Rates in the Damascus Free Market ²

Year	Dollar Rate (in Syrian Piasters)
1945	(Market not free)
1949	350
1950	370
1951	383
1952	369
1953	357.5

¹ Ministry of National Economy, Directorate of statistics, *Statistical Abstract of Syria, 1951 and 1952*; *Monthly Statistical Bulletin*, October, 1953.

² Ministry of Finance, Exchange Office, *The First Annual Report on the Activities of the Exchange Office*, tables 1 and 2, Damascus, 1953.

The noticeable rise in the rates during 1951 and 1952 is largely 457
due, we believe, to the conditions arising from the Korean war.

Planning and Administration of Projects

24. It is difficult to say that there existed in Syria a develop- 652
ment policy with definite aims and worked-out plans during the
period 1945-1952. Development projects were studied and approved
piece-meal under pressure of need and circumstances, without
reference to any general programme, and without being subjected
in their administration, execution, or the management of their
financial and economic effects, to one single authority that could
direct the whole operation and create the conditions for its success.
The projects had nothing in common except the great need
felt for them and the necessity of finding the required funds.

25. Development projects were approved in one of two ways.
First, by including them in the body of the state budget and making
the necessary appropriations. As most of these projects could
not be executed within one financial year, the Budget Law provided
for the transfer of such appropriations to a special account
outside the budget called the Development Programmes Account.
The purpose was to prevent the cancellation of unused appropriations
at the end of the financial period, as is normally done in a
yearly budget. Secondly, the projects that were financed from
available treasury funds or from Bank of Issue loans were approved
individually by issuing for each project a special law, which
established definite principles for its administration and execution
and which authorized the government to borrow the necessary
funds either from the available treasury funds or from the Bank
of Issue.

26. The method followed up to now in approving, financing,
and executing development projects is not free from certain defects
and pitfalls. These are the main criticisms we have to make.
First, it does not enable the government to have a complete picture
of all the projects that the country needs, or of the cost and
the period required for their execution, so that it can make a priority
list and earmark definite financial sources for each one. Without
such over-all comparison, the government cannot give each project
the priority it deserves according to its productive value, the speed
of its execution and the funds it requires. Moreover, without prior
study of the projects, and a stock-taking of its financial

652 capacity, the government cannot establish a clear principle of economic development; nor can it expect to have a long-term, integrated policy, characterized by stability and permanence, and guaranteeing the execution of the projects free from interruption, vacillation and the interference of personal interests. Finally, the government has not evolved a unified policy that can integrate financial and monetary considerations on the one hand, and the requirements of economic policy on the other. If no general development programme is adopted, the authorities concerned will not be able to handle the monetary, financial and economic problems that are bound to be raised by the application of parts of the programme. The prerequisite for the solution of any problems that may arise is a planned integration of ends and means.

Part Three

195 The State of Economic Development at the Present Time

27. By the end of 1953,¹ following an initial period of experimentation that lasted for nine years, Syria had covered a good distance on the road of economic development. In addition to the efforts made to execute a considerable part of the development project, the Syrian government has succeeded in creating many of the conditions necessary for further development. There remains before it the new, critical stage of determining and implementing a complete balanced development policy.

28. The Syrian government managed, in this period, to remove some of the obstacles, both external and internal, that stood in the way of the success of any development policy. It also started to make studies of the country's potentialities and began to organize the collecting of statistics and data concerning the country's condition. It strengthened the mainstays of the national economy and organized it on a firm basis. Then it turned to its monetary and banking system and established a supreme authority to undertake its administration. This authority was given the powers and means necessary for managing monetary, exchange, credit and banking

¹ At the time of writing in the autumn of 1953, the final figures for 1953 were not available. This leaves a gap of one year in the survey of the period 1945-53 made in Part Two of this paper. However, no change in trends appeared in 1953.

affairs, for adapting monetary policy to changes in the economic condition, and for bringing this policy in line with the state's financial and economic policies. 185

29. The idea of setting up a planned development programme extending over several years has been gaining ground and recently obtained support from the government. The broad lines of the state's development policy were defined in Parliament in October 1953 as follows: ¹

"The state's future development policy must be embodied in an economic development programme that includes all the projects of the government and of public institutions. We consider that this programme should cover a period of not less than five years..."

"... It is necessary that the programme should have a special administration directly linked to the Office of the Chief of the State. The Board of Administration should be composed of representatives of the ministries specified by the programme, of delegates from the Monetary and Credit Council and the Council of National Resources, and of technical experts".

"The Administration should undertake the study of projects and estimate their importance, order of priority, probable benefits, the length of time needed to carry them out, and their cost. It should prepare technical specifications and after approving them should supervise their execution..."

"As to the programme's finances, we consider that it should have at its disposal a special budget, independent of the state budget, and subject to the approval of Parliament, and the programme should be financed from appropriations that could be made from the general budget, from the reserve fund, from various loans and from such extraordinary revenues as may be allocated to it".

30. It is not enough to prepare and approve a development programme, or even to set up its administration. It is essential for the success of the programme that the Planning Board should be able to solve these two major problems: ensuring harmony between development policy and financial, monetary and economic policies; securing the funds needed for development projects.

1- Statement of the President of the Republic on the financial and economic conditions of the country - October, 1953.

Ensuring Harmony

652
185

31. The execution of the development programme will have serious financial, monetary and economic effects upon the country. For it diverts a section of productive powers towards projects that do not necessarily lead to an immediate expansion in national production. On the contrary, it deprives production, for the period during which development projects are executed, of some of the factors that would normally be employed in producing consumption goods. Since a development programme leads to the creation of additional purchasing power, as a result of its putting into circulation amounts of money in excess of what the economy is accustomed to, there are bound to be repercussions upon prices and wages. Production of consumption goods falls but purchasing power expands. This situation will demand careful attention from the government, which can counterbalance its inflationary effects in the following ways: by regulation of the amounts that can be spent at each stage on development projects; by attempting to divert certain productive elements (such as the building industry) towards development projects; by directing the additional purchasing power towards investment projects, or by absorbing it back into the national funds through encouraging savings, through taxation, or through imposing rationing on consumption.

32. On the monetary side, a development programme raises several problems, of which the most important are securing foreign exchange and the adaptation of credit policy to the new conditions created by the programme.

As to foreign exchange, the development programme is bound to create extra demand for foreign currencies. If the exchange available is not sufficient to meet the needs of the programme in addition to the other normal needs of the country, then the Planning Board will have to evolve a means of counterbalancing the tendency such a situation will have, to depreciate the national currency. It would be necessary to: limit the importation of luxuries and inessential goods; borrow externally to secure the required exchange; increase the country's exports so as to obtain extra exchange. This is difficult to achieve however, for the reasons mentioned in the previous paragraph.

Credit policy can play a major role in leading development policy to success, and in counterbalancing some of its short-term

effects. Thus, credit may be contracted with the aim of fighting inflationary symptoms, or discount rates may be raised so as to encourage investment of private funds. Shortage of investment that may be found in certain consumption industries can be remedied by directing credit towards them, and by advancing the money they need at favourable terms.

33. As to financial policy, it plays the major role in determining the monetary or economic effects of the development project. It is well known that these monetary and economic effects differ with the different methods used to finance the development programme. It is also clear that the ease with which development policy problems can be solved depends on whether the state budget is in a state of deficit, balance or surplus. This also applies to expansion or contraction in ordinary budget expenditures and to the ways in which appropriations are spent.

34. It is not our purpose here to analyse the interaction and interrelation between each of the budgetary, monetary and economic policies on the one hand, and development policy on the other. We intend only to point out the basic fact, that no development policy should be prepared or implemented unless it harmonizes and co-ordinates with the general economic policy in all its aspects. Each element should have a planned reaction upon the others; thus all will cooperate in securing the maximum general welfare.

Securing the Funds Needed for Development Projects

35. Syria's urgent development projects will cost in total some LS 400 million. Their execution will require from five to six years, which will make it necessary to secure annually a sum of LS 66 million.

The following sources of finance may be considered: taxes and reserve funds, internal and external loans, the investment of national and foreign capital.

36. There is no doubt that dependence on taxes and reserve funds is the soundest and safest method of financing development projects. Syria can allocate its available reserve funds for development projects, but cannot depend at present on taxes, since ordinary revenues are only sufficient to meet ordinary expenditure. It is neither possible nor desirable to raise taxation rates or to impose new taxes so long as the national income remains at its

652
185

652

652 present level. The proportion of current taxes (approximately LS
[651] 200 million) to the national income (approximately LS 1250 million) is 16 per cent. This ratio may seem small if compared with that of other countries, but we should not forget that the national income of Syria is in itself small. What the average tax-payer pays in taxes is cut from his essential expenditure, since his income is not appreciably in excess of his essential expenditure. There is little surplus that the government can reasonably take in the form of taxation.

However, though we cannot depend on taxes to finance development projects, we should not neglect the improvement of methods of tax imposition and collection, and the need for strict inspection in applying taxation laws. It is not improbable that such improvements and inspection may lead to a 15 per cent rise in collected taxes, (about LS 30 million). This could very well be used to cover the desired expansion in ordinary government expenditure and to contribute towards development projects.

In any case, development expenditure tends in the long run to increase national income, thus forming in its turn a new source of public revenue that should not be neglected by the government, particularly since a greater taxation effort is essential to absorb the surplus purchasing power created by development projects and to combat inflation.

454 37. As to internal loans, we have seen that there is no financial
652 market in Syria and that individuals do not embark on such a form of investment. Though we realize the difficulty of creating a financial market in a short period of time, yet we believe that it is possible at the present time to establish a money market, and that, with adequate measures, a financial market dealing with medium term loans could be set up in a relatively short time. Considering that private capital invested in national companies since 1944 has amounted to about LS 100 million, and that the capital invested in individual enterprises, whether industrial, commercial or agricultural, was more than twice the funds spent by the government on development projects, it becomes clear that the possibility of creating a financial market is not out of the question.

The creation of a financial market in Syria is an essential condition for the success of any development policy. Without a financial and money market the authorities concerned will not be able to direct credit affairs effectively, nor to manage monetary policy in the country. The benefits that such a market would bring would

justify the government in adopting measures such as the following: 454
encouraging individuals to invest their funds in medium-term 152
loans yielding relatively high interest and carrying certain guaran-
tees and exemption from taxes; requiring establishments such as
insurance companies, social institutions and those individuals who
are asked to pay reserve deposits (such as accountants and contrac-
tors) to hold their funds in the form of government bonds: in ad-
dition, the government could impose certain restrictions upon the
activities of certain industries such as building, so as to divert ca-
pital towards the financial market. It is not our intention to deal
with all measures that could be taken to encourage the financial
market in Syria, but merely to indicate both the possibility of crea-
ting such a market, and the necessity of its creation as a condition
for the success of the development policy, through the power it
gives to the government to manipulate credit policy.

38. Another source of finance is borrowing from the Bank of 152
Issue. It is an easy method and attractive to governments, but it
is fraught with dangers and pitfalls.

We do not believe that all borrowing from the Bank of Issue
for the purpose of financing development projects is necessarily
unwise; nor do we believe that it leads in all cases to inflation.
The consequences that follow from this type of borrowing depend
on the manner in which the loan is used, the economic conditions
of the country, the position of the balance of payment and on se-
veral other factors.

An additional issue of paper currency for financing develop-
ment projects can follow two channels: it can either flow abroad
in payment for imports that are needed to implement the project,
or it can be spent internally to meet local expenditure.

In the first case, paper bills are returned to the Bank of Issue
to the same extent to which foreign currencies are drawn from it.
Official foreign exchange and gold balances will be reduced, but
the paper currency issued will have no impact on national income
nor will it have any inflationary effect.

In the second case, the issued paper currency will lead to a rise
in national income that may exceed the value of the issued paper.
For part of the currency paper that reaches the workers and con-
tractors of development projects will be transferred to other produ-
cers, thus giving them additional income and purchasing power,
and so on continuously. Circulation of the newly issued paper

652 will not however be complete. For part of it will be saved and another part will find its way to the treasury in the form of taxes and dues ; a third part will be used to pay for imports from abroad, in which case it will find its way back to the Bank of Issue and will be withdrawn from circulation. In these three cases no inflationary effects follow from the new issue. But the remaining part, which is used to purchase consumption goods and services, will no doubt create additional demand for the goods and services that form the total national output. If the national economy has unemployed factors of production and is in a condition to meet the extra demand, then no inflationary effects will appear. If the national economy, on the other hand, fails to increase production so as to meet the additional demand for goods and services, then the economy will move towards inflation.

From another angle, the effect of the extra purchasing power appears in the balance of payments, for the additional demand is not limited to national goods and services, but extends beyond them to foreign goods and services. It is therefore necessary to know whether the country's gold and foreign exchange reserve will allow the satisfaction of the extra demand for foreign currencies, both from the development projects and from the people whose incomes are increased by the new issue. It is also obvious that a rise in the consumption of local products may lead to a reduction in exports, if national production cannot meet all the new demands.

457 39. Foreign private capital can be utilized in two ways: in
652 helping to establish or finance private projects ; and in paying in foreign exchange for imported equipment required for government development projects. In this case, foreign banks would give medium-term credit for purchasing equipment from their country and accept repayment by instalments over a period of three to five years. Thus the government can pay for its imports in instalments over five years rather than in one lump. The merit of this method in protecting the foreign exchange value of the national currency and in avoiding inflationary effects is obvious. Having recourse to foreign private capital for the purpose of financing expenditure on development projects undertaken by the government seems to us, however, unlikely to be adopted. For such funds could not be invested in the country except under strict guarantees and difficult conditions.

40. Foreign government loans on the other hand have a po-

litical aspect that we do not intend to deal with here. Limiting the discussion to the economic aspect, we have to distinguish between two situations: the use of foreign loans to finance expenditure abroad that has to be paid for in foreign exchange; the use of foreign loans to finance local expenditure due in local currency. 652 457

In the second case, the borrowed foreign exchange is put in the currency cover and an equal sum in currency bills is issued by the Bank of Issue and put into circulation as the need arises for covering local expenditure in national currency. Despite the fact that the issue of these paper bills is balanced by foreign exchange in the cover, its monetary effects are in no way different from the case of direct borrowing from the Bank of Issue for meeting local expenditure. Thus, what is said of financing development projects by borrowing from the Bank of Issue applies in full to foreign loans that are used to meet local expenditure. For this reason we think it unlikely that recourse would be made to foreign borrowing, because its financial and political conditions are generally more burdensome than those of direct borrowing from the Bank of Issue.

In the first case however, when foreign loans are used only to pay for that part of development expenditure due in foreign exchange, there is no doubt that the method has sound monetary effects; it completely solves the problem of securing foreign exchange needed for development projects, while at the same time saving the country from the dangers of inflation and preventing a fall in the external value of the national currency. Nevertheless, we do not recommend the use of foreign loans except to the extent that the country is in real need of foreign currencies. If the country has a sizeable amount of foreign exchange or if it can secure the necessary exchange through restricting its inessential imports, then there would be no necessity for foreign loans which, besides laying a burden of interest upon the national economy, may give rise to political difficulties.

41. It becomes clear from the above that the effects of a new issue of paper currency depend in the first place upon the proportion of the new issue saved and absorbed by the treasury, to the part that is used to pay for additional imports; secondly, upon the condition of the national economy and its capacity to expand production so as to satisfy the extra demand for goods and services; finally, they are dependent upon the balance of payments position 652

652 and on the volume of the country's foreign exchange reserves.

In the light of these considerations, it can be said that, in an agricultural country such as Syria, whose economy has not reached the stage of development in which currency exchange methods and velocity of circulation are well advanced, and in which all the factors of production are employed, it is feasible to rely on loans from the Bank of Issue to finance development, subject to the following limitations and conditions: that recourse to issuing paper currency is kept within reasonable limits so that it may not lead to an excessive rise in purchasing power compared to the rest of the national income; that it should be used on projects that will lead quickly to an expansion in national production; that it should be accompanied by the control of economic activities to ensure that production for local consumption and production for export do not fall; that it should be accompanied by a monetary policy that directs credit activity so as to limit inflationary effects, and a financial policy that will adjust ordinary budget expenditure to the needs of the development programme; that it should be accompanied by administrative measures to raise the collection of taxes and dues; and finally that it should only be resorted to after the exhaustion of all other methods.

42. At present, Syria has a number of potentialities, all of which must be used wisely if the success of its development programme is to be achieved in full. Its reserve funds must be utilized. Great efforts must be exerted to improve the principles of tax imposition, collection and inspection. All instalments due on previous loans from the Bank of Issue should be allocated to the development programme. These loans have exhausted their impact and have become part of the Syrian economy.

The measures necessary to create a money and financial market should be taken as quickly as possible. Foreign capital should be sought to finance imported equipment, and, if that is called for by the balance of payments position, recourse should be had to foreign government loans. Loans from the Bank of Issue should be applied for within the limits and subject to the conditions set out above.

Summary

000 43. We deduce from the above study of the present and future economic development of Syria certain general principles that

we consider applicable to the conditions of many economically underdeveloped countries. We may summarize them as follows: 000

- a. Economic development in a country which is not fully developed is in the first place a government task. It requires the government to establish its foundations and principles, and to set in motion its execution, thus creating a stimulating atmosphere for the activity and enterprise of private individuals.
- b. Economic development is, before anything else, an organizational task that requires a great and sustained effort. It is based in particular on good administration, on the organized collection of data and statistics, on studies, the establishment of technical, banking and monetary apparatus, and the creation of an atmosphere, both internally and externally, favourable to development.
- c. Economic development requires the preparation of a studied development programme that will embody its fixed principles and lay before the government clearly what is needed, the way to achieve it and the time and capital that are needed for its full completion.
- d. Economic development is not just a question of securing the funds and spending them. Money is only one of the many elements that have to be secured in order to ensure the success of the development policy. One general policy must be evolved that will coordinate the budgetary policy, monetary policy, economic policy and development policy, so as to produce the proper interaction between these policies, improve the national economy and secure the maximum of general welfare.

